

Financial Regulation: Weekly Update

Matías Cabrera, Inés Criado, Arturo Fraile, Hamza Jebari, Salvador Portillo, Ana Rubio, Victoria Santillana, Pilar Soler

May 08, 2020

Highlights

1. BIS issues report in member initiatives to deal with climate-related financial risks
2. FSB consults on its guidelines for the adequacy of financial resources for CCP resolution
3. EBA issues updated ITS on benchmarking on internal approaches, final guidelines on credit risk mitigation and report on STS synthetic securitization
4. ESAs publish draft RTS for non-centrally cleared OTC derivatives
5. European Commission presents new action plan to fight money laundering and terrorist financing

GLOBAL

■ BIS releases a stocktake report on its members' initiatives to deal with climate-related financial risks

The [results](#) are based on a survey that points toward addressing climate-related financial risks in the existing regulatory and supervisory frameworks. The majority of the Members are undertaking a bunch of initiatives.

■ FSB issues consultation on guidance on adequacy of financial resources for CCP resolution

It consults on its guidance on financial resources to support [CCP resolution](#) and on the treatment of CCP equity in resolution to assist CCP resolution authorities. Deadline: Jul 31.

EUROPE

■ EC presents new action plan to fight money laundering and terrorist financing

[Announces](#) a coordination mechanism for FIUs, EU supervision of obliged entities, tougher rules against cybercrime and a harmonized rulebook. The legislative proposals are announced for the beginning of 2021.

■ EBA updates ITS on benchmarking on internal approaches, including IFRS 9 templates

Introduces 2 [new annexes](#) focused on: i) analysis of the variability of PD over a 12-month default scenario, ii) variability of macroeconomic forecasts and iii) variability in the assessment of significant increases in credit risk.

■ EBA publishes final guidelines on credit risk mitigation (CRM) and ITS on market risk reporting

- i) Clarifies the application of [CRM provisions](#) for entities using A-IRB, specifically regarding eligibility requirements.
- ii) This is the first element in the introduction of [FRTB](#) into the EU regulatory framework.

■ **EBA issues report on STS synthetic securitization and guidelines for payments due in securitizations**

Includes: i) a [list of criteria](#) to be considered when labelling the synthetic securitization as 'STS' and provides the pros and cons of a potential differentiated capital treatment for this type of securitization, and ii) [guidelines](#) on the methodology to determine the weighted average maturity of contractual payments due under the tranche of a securitization transaction.

■ **EBA publishes updated calculation tool of liquidity coverage ratio**

The tool, which seeks to provide [additional support](#) for reporting institutions, takes into account the amendments in the LCR introduced by the Commission Delegated Regulation (EU) 2018/1620 that applies from Apr 30.

■ **ESAs issue draft RTS for non-centrally cleared OTC derivatives**

It seeks to incorporate a one-year deferral of the two implementation phases of the [bilateral margining](#) requirements under EMIR (as indicated by the Basel Committee and IOSCO).

■ **EBA launches additional EU-wide transparency exercise**

It provides market participants with updated information on the [financial conditions](#) of EU banks as of Dec 31, 2019, prior to the start of the COVID-19 pandemic. The results are to be published in the beginning of June.

■ **ESMA reminds firms of conduct of business obligations under MIFID II**

It issues a [statement](#) on the risks for retail investors when trading under the highly uncertain market circumstances due to COVID-19 and also reminds investment firms of the key conduct of business obligations under MiFID.

■ **ESMA issues consultation on SME growth markets**

i) On the functioning of [SME Growth Market](#) regime in the EU and ii) on two draft technical standards, introduced by the amendments to the MAR for the promotion of the use of SME Growth Markets. Deadline: Jul 15.

■ **ESMA publishes calculations under MiFID II and MiFIR and extends registration of trade repositories**

i) Annual bond [transparency calculations](#), systematic internaliser calculations and new bond liquidity data; ii) It approves the extension of registrations of four TRs to include [securities financing](#) transactions (SFT) reporting.

■ **ECB updates list of supervised entities**

[The list](#) includes significant institutions directly supervised by ECB and less significant institutions indirectly supervised by ECB. The total number of significant supervised entities is 115 as of Apr 1, 2020.

SPAIN

■ **BdE issues statement on MREL flexibility**

The Bank will apply to institutions [under its responsibility](#), the discretion and flexibility afforded by the legal framework for compliance with obligations in the area of resolution, in line with the decisions taken by the SRB.

UNITED KINGDOM

■ BoE and PRA issue statement on temporary transitional powers due to Brexit

It welcomes the HM Treasury's statement on its intention to retain the regulators' [Temporary Transitional Power](#), shifting its application so that it is available for two years from the end of the transition period.

■ PRA issues several statements regarding COVID-19 related measures

Statements on: i) setting [Pillar 2A](#) requirements as a nominal amount, instead of as a percentage of total RWAs, ii) details of its plans on [several areas](#) (climate change, LIBOR transition, insurance stress test 2019, and stressed VAR), iii) on [resolution](#) measures (including resolvability assessment framework, valuation in resolution, resolution plan reporting and MREL), iv) on [credit risk mitigation](#) eligibility and leverage ratio treatment of loans under the Bounce Back Loan scheme, and v) on changes to the Term Funding Scheme with additional [incentives for SMEs](#).

■ FCA updates position limits for certain commodity derivative contracts under MiFIR

The [changes](#) reflect changing market conditions and will apply immediately. It seeks to avoid the impair market functioning or disproportionate growth in the contracts under MiFID II and MiFIR.

UNITED STATES

■ Agencies issues interim final rule for the liquidity coverage ratio

The rule seeks to facilitate the participation of banks in the MMLF and the PPPLF, by [neutralizing](#) the LCR impacts associated with the non-recourse funding provided by these facilities.

■ FRB expands its Main Street Lending Program and Paycheck Protection Program Liquidity Facility

It expands the scope and eligibility for the [MSLP](#) and [PPPLF](#) to help credit flow to small and medium-sized businesses that were creditworthy before the pandemic, and to expand potential lenders and pledged collateral.

■ FRB issues an extension for its single-counterparty credit limit rule implementation

It applies to the combined U.S. operations of [foreign banks](#) and provides 18 months for foreign jurisdictions' implementation of the standard. The largest foreign banks need to comply with the limit by Jul 1, 2021 and smaller banks by Jan 1, 2022.

■ FDIC & OCC issue the results for CRA compliance evaluations

They contain the ratings of banks and savings institutions evaluated under the CRA during April 2020 and February 2020, respectively ([OCC](#) and [FDIC](#)).

■ CFPB issues clarifications on the Paycheck Protection Program

It clarifies [FAQs](#) to support small businesses who have applied for a loan from their financial institution under the Small Business Administration's Paycheck Protection Program.

Recent publications of interest (in English and Spanish):

- [Press Article](#). *The regulatory response to COVID-19*. April 2020.
- [Press Article](#). *Sustainable finance: “I’m late, I’m late, I’m late!”* March 2020.
- [Press Article](#). *Central Bank Digital Currencies: the cross border dimension*. March 2020.
- [Press Article](#). *Europe strengthens its financial supervision authorities*. February 2020.

Previous edition of our Weekly Financial Regulation Update in [English](#)

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Nor shall this document or its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorized by BBVA.

This report has been produced by

Head of Financial Regulation

Ana Rubio
arubiog@bbva.com

Arturo Fraile
arturo.fraile@bbva.com

Victoria Santillana
mvictoria.santillana@bbva.com

Matías Daniel Cabrera
matiasdaniel.cabrera@bbva.com

Pilar Soler
pilar.soler.vaquer@bbva.com

Hamza Jebari Serroukh
hamza.jebari@bbva.com

Salvador Portillo
salvador.portillo@bbva.com

Inés Criado
ines.criado@bbva.com